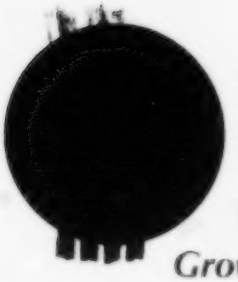

FOOD
DEVELOPMENT
CENTRE

Growing Opportunities in Food

ANNUAL REPORT

2007/2008

A Special Operating Agency of Manitoba
Agriculture, Food and Rural Initiatives

Manitoba

Minister of Agriculture, Food and Rural Initiatives

His Honour
The Honourable John Harvard
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg, MB R3C 0V8

Your Honour:

As Minister Responsible, I have the privilege of presenting, for the information of Your Honour, the Annual Report of the Food Development Centre for the fiscal year ended March 31, 2008.

Sincerely,

Rosann Wowchuk

Rosann Wowchuk
Minister

Manitoba

Deputy Minister of Agriculture, Food and Rural Initiatives
Room 159
Legislative Building
Winnipeg, Manitoba, Canada R3C 0V8
T (204) 945-3724

Honourable Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives
165 Legislative Building
Winnipeg, MB R3C 0V8

Dear Minister:

I am pleased to present the Annual Report of the Food Development Centre (FDC) covering the year ended March 31, 2008.

The management and staff are particularly proud to have exceeded the targets outlined in the Business Plan demonstrating FDC's role in value added development. These accomplishments include:

- development of 41 new food products;
- development of five organic products;
- introduction of six new food products to the market;
- development of two bakery products from wheat-based ethanol co-products;
- commercial processing of two functional foods and three meat products;
- nutritional analysis of 352 products;
- generation of fee-for-service revenues of $878,000;
- production of retail value of products produced in the pilot plant of $1,600,000.

The 2007/2008 fiscal year saw FDC continue with its key priority areas of meat, liquid food processing, functional foods and nutraceuticals, and recapitalization of assets. In 2008/2009, FDC will focus on the further development of new technologies and food products using Manitoba-grown ingredients, and will also expand its initiatives to the national and international marketplace through training and consultative activities.

Sincerely,

Barry Todd
Deputy Minister and
Chief Executive Officer

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In 2007/2008
the activities of the
Food Development Centre
resulted in

the development of **41** new food products;

the development of **5** organic products;

assistance in the introduction of **6** new foods products to the market;

the development of **2** bakery products from wheat-based ethanol co-products;

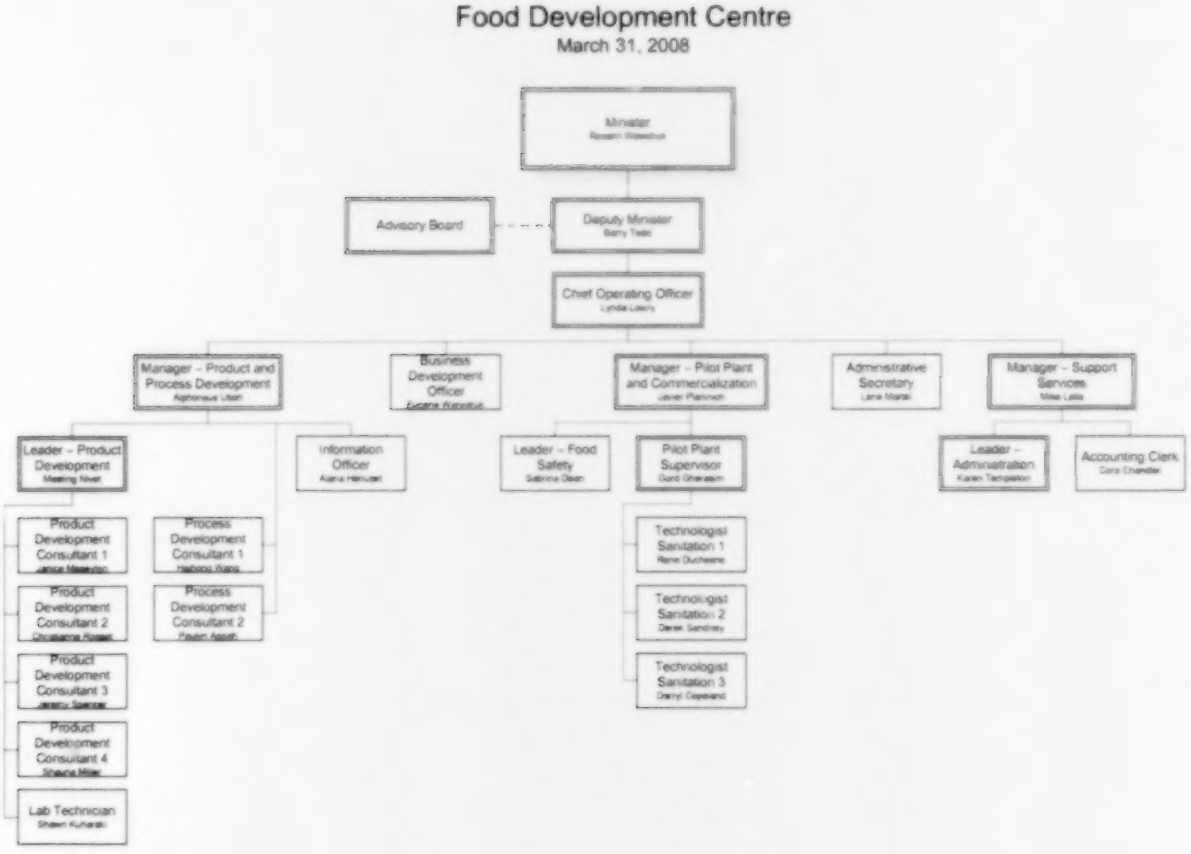
commercial processing of **2** functional foods and **3** meat products;

the nutritional analysis of **352** products;

fee-for-service revenues of **$878,000.**

FDC leads Manitoba
in
Homegrown Innovation

FDC ORGANIZATIONAL CHART



Our Vision

Increased employment and wealth through enhanced development of Manitoba as a global source of high quality food products.

Our Mission

The Food Development Centre provides leadership in the creation, expansion and diversification of the agri-food industry through its industry networks and its expertise in food processing.

Our Goals

- To provide up-to-date, unbiased technical information to the agri-food industry, with emphasis on leading-edge technologies in product and process development
- To provide technical and federally accredited pilot plant services for the production of safe, high quality and wholesome food products
- To provide Manitoba with a unique liquid food packaging facility through a partnership with Great Plains Aseptic Processors
- To provide education and training to industry through technical seminars
- To create awareness of value-added processing of agri-food commodities and promote the capabilities of the Food Development Centre
- To ensure co-ordination and effective use of resources across the agri-food sector by liaising with industry, academia and government
- To participate in co-operative projects that will influence the production of primary products that may be processed within Manitoba

1. FDC'S SUPPORT BRINGS INDUSTRY SUCCESS

1.1 Functional Foods and Nutraceuticals

FDC developed several functional food products for Manitoba companies, such as energy bars, honey energy beverages, roasted pea snacks, etc. One of the key highlights in this area was the Flax Canada 2015 project. FDC developed flax-based products for a two-year clinical study that will be conducted by the Canadian Centre for Agri-Food Research in Health and Medicine (CCARM) to investigate the cardiovascular protective effects of ingestion of flaxseed on a patient population suffering from peripheral arterial disease (named Flax-PAD). The food products were jointly developed and produced by the Canadian International Grains Institute (CIGI) and FDC. Flax Canada's Flax 2015 program is funding this research. The project further demonstrated the strength of the research infrastructure in the province and the willingness to partner on major research projects.

Funding was received from the Province of Manitoba to support a two-year project to develop food products targeted to the Baby Boomer market. The Minister of Agriculture, Food and Rural Initiatives made the announcement at FDC. The project was also funded by the Manitoba Rural Adaptation Council and will be carried out in collaboration with the University of Manitoba, Faculty of Human Nutritional Sciences.

1.2 Liquid Foods

The highlight project in the liquid food priority area was the development of the hemp beverages (four flavours of *Hemp Bliss*), which are now commercially produced by Great Plains Aseptic Processors for Manitoba Harvest (Fresh Hemp Foods). The hemp beverage received an award as best new food product at the Natural Food Product Expo East in Baltimore, Maryland.

1.3 Meat Products

FDC developed and commercialized three meat products including two flavours of elk jerky, marinated chicken and chicken nuggets.

1.4 FDC Co-Organized International Conference

FDC successfully co-chaired and organized the 3rd International Seabuckthorn Association Conference in Quebec from August 12-16, 2007. About 140 representatives from 12 countries, including Canada, attended the conference. FDC presented five papers, including a keynote presentation on current and emerging technologies for seabuckthorn processing. Five delegates from Manitoba attended the conference. About twenty delegates from across Canada discussed the short term and long term strategies for the seabuckthorn industry in Canada and the need for a national association.

This conference and meetings led to the successful application to the Canadian International Development Agency (CIDA) to provide training and create a partnership with the Northern Research Institute of Forestry and All Russian Research Institute of Medical and Aromatic Plants on small fruit production and processing to develop technologies and products in the agribusiness sector for commercialization.

1.5 NRC-IRAP/FDC Contribution Agreement

FDC signed a Network Member Agreement with the National Research Council's Industrial Research Assistance Program (NRC-IRAP) to provide technology transfer activities to NRC targeted clients. Under this Agreement, FDC assisted four small and medium-sized agri-food enterprises (SMEs) in expanding and strengthening their innovation capabilities. These projects range from literature reviews on new technology development to new product development including:

- Study on Application of Pea Fibre to Minced Beef
- Modified Atmosphere Packaging (MAP) of Energy Bars
- Blanching Trials for Split Peas
- Demonstration of Seabuckthorn Fruit Harvester and Processing

These projects have led to industry funded projects which are being carried out at FDC.

1.6 Strategic Research Program

FDC carried out two key strategic projects; ethanol co-products utilization and development of the functional food and nutraceutical program in Manitoba, which have resulted in significant outcomes and the strengthening of FDC's research and development capabilities and capacity. The work on the ethanol co-products led to the successful application to participate in the national network: Agricultural Bio-Products Innovation Program on Nutraceuticals Emerging from Agricultural Technologies (ABIP-NEAT). FDC was approved for a three-year project on biorefining of wheat for ethanol, functional foods and nutraceuticals. FDC continues to be invited to make presentations on its work on ethanol co-products utilization in foods.

The work on the functional food and nutraceutical program supported the establishment of the Manitoba Agri-Health Research Network (made up of RCFFN, CCARM and FDC) dedicated to the promotion and development of functional foods and nutraceuticals in Manitoba, both nationally and internationally.

Another key outcome of this program is FDC's work on small fruits; in particular seabuckthorn, which has led to its recognition nationally and internationally for research in seabuckthorn product and technology development.

The functional food and nutraceutical program also led to the acquisition of the mobile steam distillation unit for essential oils which has already been used by a Manitoba company, Channel Development Corporation in The Pas, for essential oils and hydrosols.

Overall, the strategic research program in the 2007/2008 fiscal year was a key factor in FDC strengthening and expanding its research capabilities and capacity. FDC successfully developed a collaborative industry project involving Pulse Canada, Best Cooking Pulses and Nutri-Pea of Manitoba and Newly Wed Foods of Ontario to develop food applications for pea fibre, pea starch and pea flour. This two-year (2008 to 2010) project is funded by the Alberta Funding Consortium and Alberta Pulse Growers.

1.7 FDC Participates in Manitoba Functional Food Opportunity Program (MFFOP)

FDC participated in the development of several functional foods under MFFOP. The lead project for FDC was the development of functional flour, which was done in collaboration with CIGI and the MAFRI Food Commercialization and Knowledge Centre. FDC is now reviewing the technology transfer process for commercialization of the functional flour. The other products developed by FDC were tortilla mix, buckwheat pudding and buckwheat crackers. The buckwheat crackers have been produced for clinical studies to investigate the insulin-like properties of buckwheat.

Other products developed (by the University of Manitoba and RCFFN) under the program included saskatoon products, wild rice, pulse products, dairy products, pemmican and extruded snacks. These products are at different stages of the commercialization chain.

II. FDC Project Activities and Highlights

II.1 Business Model Review

A Business Model Review process was undertaken to identify better methods to deliver services to Manitoba clients. FDC must be able to proactively address changing market demands in a timely fashion.

The Business Model Review considered the organizational structure, cost structure and delivery mechanism. The organizational structure was revised to lay the foundation for an adaptable and flexible business unit. The cost structure of FDC's service delivery was evaluated by an outside agency. The recommendations for adjusting costs and recapitalization will be presented to the Advisory Board. The delivery mechanism and client service model have also been revised.

II.2 Pilot Plant Activities

The pilot plant provides a complete facility for the production and packaging for test or for very limited established markets. As production quantities are increased, clients are able to identify and overcome many of the operational difficulties inherent in the scale-up process, and at the same time are able to better estimate processing input costs. This is vital information prior to initiating a product launch or proceeding with a major capital acquisition.

- The minimum level of occupancy was 80% in this fiscal year. This means, as per the indicator, that the pilot plant had at least two or more activities in 198 days out of 247 working days. In addition, the pilot plant offered services on numerous weekends and holidays; these additional days were not computed to preserve the consistency of the indicator.

- Thirteen Manitoba companies produced retail-ready items at FDC's federally registered plant. The total products included meats, eggs, fruits, vegetables, oils, baked items and sauces. All of them had a HACCP plan, labels and nutritional labelling to comply with CFIA regulations.

- Kudu Foods (King Pie Canada) started production at FDC after standardizing the recipes using Canadian and Manitoba ingredients. Their demand of use of the pilot plant was four times per week requiring the pilot plant staff to go the extra mile to accommodate other clients. It was necessary to establish Saturdays, Sundays and holidays as production days. The staff were exceptional and very accommodating of their personal time to permit this project to succeed.

- Manitoba Harvest introduced the Hemp Bliss Beverage in its four flavours early in this fiscal year: chocolate, vanilla, original and natural. The product was developed at FDC and is processed at GPAP's Tetra Pak commercial line with FDC's supply of machinery and infrastructure. The client received an award for "Best New Food Product" at the Natural Products Expo in Baltimore, Maryland, USA.

- The pilot plant welcomed Darryl Copeland as the new Pilot Plant Sanitation Technician and congratulated Derek Sandney on his new position as Pilot Plant Technologist.

- Management has focused in:

    - Achieving the Business Plan targets (results in chart below).
    - Reducing the cost of present services, renewal of contract for production plant equipment operation, maintenance and repair services with ATCO Frontec for two years, with a reduction in cost of 20% for FDC.

- Improving the facility with the introduction of more lighting in the mezzanine for safety reasons and the compressor room to extend the life of the compressors and increase efficiencies with a decrease in cost.
- Communicating the needs of the pilot plant for MIS (Management Information System) and acting as a permanent member of the team.
- Maintaining the CFIA Meat license as well as the Organic, Honey, Hemp and Processed Fruits and Vegetables licenses.

Key Activities and Targets from the 2007/2008 Business Plan

KEY ACTIVITIES AND TARGETS	FISCAL YEAR RESULTS
Pilot Plant	
Track retail value of products produced in plant – target $800,000	Over $1,600,000 based on the production records and retail value
Fee-for-service revenues of $100,000	$236,858
Commercial processing of 10 clients (5 will be new clients; 3 of the 10 clients will be in the priority areas)	6 new clients 3 new clients in the priority area (meat)
Commercial processing of 2 functional food projects	4 Hemp beverage flavours commercially processed at GPAP with FDC participation. Granola bars manufactured for a nutritional and functional food company in B.C.
Develop 5 HACCP plans for clients	6 new HACCP plans were developed
Minimum of 2 clients per day in plant	80% capacity during the fiscal year
Participate in the development and promotion of the functional food and nutraceutical cluster	FDC continues to play an active role in the Manitoba Agri-Health Research Network. FDC was the co-chair of the International Seabuckthorn Conference. FDC attended this conference and made five presentations on processing of seabuckthorn fruits.

II.3 Hazard Analysis Critical Control Point (HACCP) Activities

- The target of developing five HACCP plans was accomplished despite the intense work in other requirements dictated by regulations.

- HACCP activities concentrated in lifting CFIA observations, reviewing HACCP plans and developing new ones, preparing for audits, changing the written program as the regulations evolve, submitting new labels for approval, and assuring all clients were in compliance with the introduction of Nutritional Labelling by December 12, 2007.

- CFIA introduced a new system of auditing in early February 2008 called the CVS system. This new CFIA audit system demands a change in roles in that

the HACCP Coordinator assumes the role of an inspector and CFIA inspectors are leaning to an audit role. Audits now occur weekly.

- Production under the OPAM regulations for organic products continues. Yearly audits occur and any observations are addressed by the HACCP Coordinator.

II.4 Marketing Activities

FDC's Business Development and Marketing service line had a productive year that saw many changes and challenges. Ron Brodie, Marketing Coordinator and Markus Schmulgen, Manager of Business Development both left to pursue other opportunities in August and November, respectively. These two roles were combined into one new position and Eugene Warwaruk was hired as FDC's new Business Development Officer, with his duties commencing on January 7, 2008.

In 2007/08, Business Development undertook 34 tours, held 23 client meetings and participated in 22 workshops and seminars where FDC's services were highlighted and promoted. This activity exceeded the previous year of 28 tours, 15 client meetings and 13 workshops and seminars.

FDC had effective representation within the FoodTech Canada network this year. Alphonsus Utioh is scheduled to attend a meeting of the network while attending the Canadian Institute of Food Science and Technology Conference in Prince Edward Island in May 2008, and the network is beginning to establish its guidelines and each members' unique capability (FDC's being liquid food processing).

FDC was active within Manitoba's value-added initiatives. There was discussion on a central distribution facility for small food processors; FDC hosted the Canadian Culinary Federation AGM and participated in the Manitoba Food Charter Event, Direct Farm Marketing Forum and the Value Chain Workshop. We took an active role in The Great Manitoba Food Fight 2007. Eugene was active in MAFRI's Food Horizontal Team and the Entrepreneurship and Business Management Horizontal Team.

FDC is a partner in the Manitoba Agri-Health Research Network (MAHRN) with the Richardson Centre for Functional Foods and Nutraceuticals, as well as the Canadian Centre for Agri-Food Research in Health and Medicine. Together they evaluate bioactives in prairie grains, study the impact on human health and create food products for consumers. Lynda Lowry represented MAHRN at the Health Ingredients show in Tokyo, Japan as well as NZ Bio in Auckland, New Zealand. Eugene represented MAHRN at the Institute of Food Technologists (IFT) "Developing and Marketing Products for Consumer Health & Wellness Conference" in Chicago on February 27-28, 2008.

Eugene supported the Manitoba Food Processors Association, Agriculture and Agri-Food Canada, and MAFRI on the Border Busters II tour to Minneapolis with Manitoba food companies.

III. FINANCIAL ANALYSIS

III.1 Summary Operating Results (In Thousands)

FDC had a net income of $207.0 mainly as a result of increased fee-for-service revenue.

Revenue	**$3,975.0**
Expenses	
Salaries	1,409.0
Operating	2,359.0
Net Income	**$ 207.0**

FDC revenue was comprised of provincial grant funding, fee-for-service and interest income. FDC also received revenue for the administration of the Food Safety Initiative and Manitoba Agri-Health Research Network programs as part of the Canada/Manitoba Agricultural Policy Framework Agreement.

FDC purchased $1.6 million in commercial, product and process development equipment; this was fully funded under the Canada/Manitoba Agricultural Policy Framework Agreement.

See attached financial statements for further details on FDC's operating activities for the year just ended.

IV. FINANCIAL STATEMENTS

FOOD DEVELOPMENT CENTRE

Financial Statements

Year Ended March 31, 2008

THE EXCHANGE

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Food Development Centre, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2008 and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Exchange

chartered accountants LLP

Winnipeg, Manitoba
May 7, 2008

FOOD DEVELOPMENT CENTRE

Balance Sheet

(In Thousands)

March 31, 2008

	2008	2007 (Restated)
ASSETS		
CURRENT		
Cash and short-term deposits	$ 1,619	$ 537
Accounts receivable *(Note 3)*	398	599
Due from Province of Manitoba	–	769
Due from Agricultural Research and Development Initiative	–	525
Prepaid expenses and deposits	60	99
Due from Food Safety Initiative	19	34
Deposit on equipment	554	
	2,650	2,823
PROPERTY AND EQUIPMENT *(Notes 2[4])*	9,531	9,676
DEPOSIT IN JOINT VENTURE *(Note 5)*		200
SEVERANCE RECEIVABLE FROM PROVINCE OF MANITOBA *(Notes 6, 11)*	41	41
	$ 12,222	$ 12,740
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities *(Note 5)*	$ 798	$ 666
Accrued vacation pay *(Note 9)*	87	101
Unearned revenue	102	75
Due to Functional Food Cluster	24	3
Current portion of long term debt *(Note 10)*	18	18
	1,029	863
LONG TERM DEBT *(Note 10)*	159	177
SEVERANCE LIABILITY *(Note 11)*	99	88
DEFERRED CONTRIBUTIONS *(Note 12)*	10,422	9,256
	11,709	10,384
RETAINED EARNINGS	513	356
	$ 12,222	$ 12,740
COMMITMENT *(Note 17)*		

FOOD DEVELOPMENT CENTRE

Statement of Income

(In Thousands)

Year Ended March 31, 2008

	2008	2007 *(Restated)*
REVENUE		
Grants - Province of Manitoba	$ 2,234	$ 2,311
Fee for service	878	615
Lease income	70	309
Interest and other income	125	80
Amortization of deferred capital contributions *(Note 12)*	668	590
	3,975	3,905
DIRECT OPERATING EXPENSES		
Salaries and benefits	1,409	1,301
Lab supplies	134	98
Purchases services	264	221
Travel	51	47
Postage, courier and telephone	36	51
Printing and stationery	16	14
Marketing	24	27
Library	23	20
Satellite office	-	4
	1,957	1,783
GROSS PROFIT	2,018	2,122
ADMINISTRATIVE EXPENSES *(Schedule 1)*	1,811	1,805
NET INCOME	$ 207	$ 317

FOOD DEVELOPMENT CENTRE

Statement of Retained Earnings

Year Ended March 31, 2008

	2008	2007 (Restated)
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR		
As previously reported	$ 378	$ (111)
Error in write-off of GPAP Receipts (Note 14)	(72)	
As restated	306	(111)
NET INCOME FOR THE YEAR	207	417
RETAINED EARNINGS - END OF YEAR	$ 513	$ 306

FOOD DEVELOPMENT CENTRE

Statement of Cash Flows

(In Thousands)

Year Ended March 31, 2008

	2008	2007 (Restated)
OPERATING ACTIVITIES		
Cash receipts from customers	$ 1,525	$ 1,144
Cash receipts from grants	2,234	2,311
Cash received from Agricultural Research and Development Initiative	525	(525)
Cash paid to suppliers and employees	(2,840)	(2,253)
Interest paid	(109)	(121)
Interest received	45	11
Cash flow from operating activities	1,380	567
INVESTING ACTIVITIES		
Purchase of equipment	(1,596)	(698)
Deposit on equipment	(554)	-
Deposit in joint venture	200	-
Cash flow used by investing activities	(1,950)	(698)
FINANCING ACTIVITIES		
Due from Food Safety Initiative	15	(34)
Due to Functional Food Cluster	21	3
Deferred capital contributions	1,834	571
Repayment of long term debt	(18)	(18)
Cash flow from financing activities	1,852	522
INCREASE IN CASH FLOWS	1,282	391
CASH (DEFICIENCY) - BEGINNING OF YEAR	337	(54)
CASH - END OF YEAR	$ 1,619	$ 337

FOOD DEVELOPMENT CENTRE

Notes to Financial Statements

(In Thousands)

Year Ended March 31, 2008

1. NATURE OF ORGANIZATION

Established in 1977, as part of the Manitoba Research Council, the Food Development Centre (the "Centre") serves the agri-food industry by providing a wide range of services in the food, feed and beverage industries. The Centre offers food product development research, testing services and assistance with technology transfer to enable industry to efficiently and economically produce high quality foods.

Effective April 1, 1996, the Centre was designated as a Special Operating Agency by regulation under The Special Operating Agencies Financing Authority Act made by the Lieutenant Governor in Council.

The Centre is financed through the Special Operating Agencies Financing Authority (SOAFA). The Financing Authority has the mandate to hold and acquire assets required for and resulting from Centre operations. It finances the Centre through repayable loans and working capital advances. The financial framework enables the Centre to operate in a business-like manner according to public policy expectations.

A Management Agreement between the Financing Authority and the Minister of Rural Development, being the Minister responsible for the Agency at that time, assigns responsibility to the Centre to manage and account for the Centre related assets and operations on behalf of the Financing Authority.

The Centre is a part of the Department of Agriculture, Food and Rural Initiatives under the general direction of a General Manager and a Chief Executive Officer, and ultimately the policy direction of the Deputy Minister and Minister.

The Centre remains bound by relevant legislation and regulations.

The Centre is economically dependent upon the Province of Manitoba, as it derives a significant portion of its revenue from the Province. The transactions with the Province of Manitoba are recorded at the exchange amount, which is the amount agreed upon by both parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property and equipment and goodwill. Actual results could differ from these estimates.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

New Accounting Policies

Section 1506, Accounting Changes

Section 1506 requires that voluntary changes in accounting policies are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the Centre has not yet applied a new primary source of Canadian generally accepted accounting principles that has been issued but is not yet effective, as well as when changes in accounting estimates and errors occur. The adoption of this revised standard had no material impact on the Centre's financial statements for the year ended March 31, 2008.

Section 1530, Comprehensive Income

Section 1530 requires the presentation of a statement of comprehensive income and provides guidance for the reporting and display of other comprehensive income. Comprehensive income represent the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in fair value of the effective portion of cash flow hedging instruments. The Centre has not recognized any adjustments through other comprehensive income for the year ended March 31, 2008 and did not identify any components of comprehensive income on adoption of this standard.

Section 3855, Financial Instruments - Recognition and Measurement

Section 3855 prescribes the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. This section also addresses how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

The Centre is required to designate its financial instruments into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The Centre has designated its financial instruments as follows:

Cash and short-term deposits are classified as financial assets held for trading and are measured at fair value with gains and losses recognized in net earnings. Due to the relatively short period to maturity of these financial assets, the carrying values approximate their fair values.

Accounts receivable, due from Province of Manitoba, due from Agricultural Research and Development Initiative and due from Food Safety Initiative are classified as loans and receivables. These financial assets are recorded at their amortized cost using the effective interest rate method.

(continues)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Policies, continued

Accounts payable and accrued liabilities, accrued vacation payable, due to/from the Province and long term debt are classified as other financial liabilities. These financial liabilities are recorded at their amortized cost using the effective interest rate method.

The adoption of this revised standard has no material impact on the Centre's financial statements for the year ended March 31, 2008.

Future accounting policy changes

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation

The CICA has issued two new standards, CICA 3862 Financial Instruments – Disclosures and CICA 3863 Financial Instruments – Presentation, which enhance the existing standards of financial statements to evaluate the significance of financial instruments to an entity, material exposures and the measurement of those risks.

These changes in accounting policies, which will be adopted effective April 1, 2008, will only require additional disclosures in the financial statements.

Section 1535, Capital Disclosures

The CICA has also issued a new standard, CICA 1535 Capital Disclosures, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Centre's objectives, policies and processes for managing capital.

This accounting policy change, which will be adopted effective April 1, 2008, will only require additional disclosures in the financial statements.

Section 3031 Inventories

In June 2007, the CICA issued Section 3031, Inventories, replacing Section 3030, Inventories. The new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Centre will adopt the new standards for its fiscal year beginning April 1, 2008. It provides more guidance on the measurement and disclosure requirements for inventories. The Centre does not expect that the adoption of this new Section will have a material impact on its financial statements.

Revenue Recognition

Fee for service revenue is recognized on the percentage of completion basis and when collection is reasonably assured.

Lease income is recognized as revenue according to the terms of the lease.

All grants received have been recognized as income in the current year.

Funds received from the Province of Manitoba and the Government of Canada for the construction of the new building and purchase of equipment have been treated as deferred capital contributions and will be taken into income to match the amortization of the building and equipment.

(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment

Equipment assumed as part of the conversion to a Special Operating Agency, April 1, 1996 is stated at its estimated fair value as determined by the Province of Manitoba. Property and equipment are stated at cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Building improvements	15 years	straight-line method
Equipment - commercial and product development	15 years	straight-line method
Equipment - office	20%	declining balance method
Computer hardware and software	5 years	straight-line method

The Centre regularly reviews its property and equipment to eliminate obsolete items. Government grants are treated as deferred capital contribution and are amortized based on method used for the related asset.

Other Assets

Research and development costs are expended as incurred.

Unearned revenue

Unearned revenue represents cash received for projects that were started but not completed by year end.

Financial instruments

The Centre's financial instruments consist of cash and short term deposits, accounts receivable, due from Province of Manitoba, due from Agricultural Research and Development Initiative, due from Food Safety Initiative, accounts payable and accrued liabilities, accrued vacation payable, due to Functional Food Cluster, and long-term debt.

The fair value of cash and short term deposits, accounts receivable, due from Province of Manitoba, due from Agricultural Research and Development Initiative, due from Food Safety Initiative, accounts payable and accrued liabilities, accrued vacation payable and due to Functional Food Cluster approximate their carrying values due to their short-term maturity.

The fair value of the long-term debt from the Province of Manitoba is not practical to determine due to the underlying terms and conditions.

Unless otherwise noted, it is management's opinion that the Centre is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

3. ACCOUNTS RECEIVABLE

The accounts receivable balance is composed of the following amounts:

	2008	2007
Trade accounts receivable	$ 498	$ 1,803
Allowance for doubtful accounts	(100)	(1,804)
	$ 398	$ 999

4. PROPERTY AND EQUIPMENT

	2008		2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Equipment - commercial and product development	$ 5,045	$ 837	$ 5,414	$ 694
Computer hardware and software	96	84	89	75
Equipment - office	369	317	369	304
Building improvements	6,547	1,288	6,547	854
	$ 12,057	$ 2,526	$ 12,419	$ 1,927
Net book value	$ 9,531		$ 9,670	

The Centre has received $72 from the insurance company for replacing the hot water lines that had failed in October 2005. The proceeds has been applied against the building improvements.

5. DEPOSIT IN JOINT VENTURE

The Centre contributed $200 towards the purchase of a piece of equipment for Great Plains Aseptic Processors Ltd (GPAP).

GPAP has committed to obtaining the release of any secured interests and transferring ownership of the piece of equipment, mentioned above, to the Centre. During the year, the bank released the secured interest of the equipment. At March 31, 2007, the accounts receivable for GPAP had been reduced to $323 to reflect the book value of the equipment that has yet to be transferred. During the year, the $200 deposit and the $323 in accounts receivable has been transferred to plant and equipment to represent the change in ownership of the equipment.

6. SEVERANCE RECEIVABLE FROM PROVINCE OF MANITOBA

The receivable from the Province of Manitoba is for severance pay benefits owned by the employees of the Centre to March 31, 1998. The receivable, or portion thereof, will be collected in the event that there is a cash shortfall. However, this is only likely to happen on the dissolution of the Centre.

7. WORKING CAPITAL PAYABLE

The Centre has an authorized line of working capital from the Province of Manitoba of $1,000 of which $NIL was used as at March 31, 2008 (2007 - $NIL was used).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Trade	$ 649	$ 514
Interest	128	139
Sales tax	21	13
	$ 798	$ 666

9. ACCRUED VACATION PAY

The employees of the Centre are entitled to vacation pay in the current year, based on the prior year's employment. A provision for this liability has been recorded in the financial statements.

10. LONG TERM DEBT

	2008	2007
Province of Manitoba loan bearing interest at 5.80% per annum, with annual principal payments of $18 plus interest. The loan matures on April 30, 2017.	$ 177	$ 195
Amounts payable within one year	(18)	(18)
	$ 159	$ 177

Principal repayment terms are approximately:

2009	$ 18
2010	18
2011	18
2012	18
2013	18

11. SEVERANCE LIABILITY

Effective April 1, 1998, the Centre commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of twenty-three years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Centre. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Centre's employees to March 31, 1998. That responsibility is reflected by a $41 receivable from the Province of Manitoba.

An actuarial report was completed for the severance pay liability as of December 31, 2004. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's liability is recalculated annually, with payments to retiring employees no longer with the Agency or the Province charged against the liability. The Centre's actuarially determined net liability for accounting purposes as at March 31, 2008 was $98 (2007 - $88). Commencing in the 2006 fiscal year, the actuarial gain of $14 is being amortized over the 15 year expected average remaining service life of the employee group.

12. DEFERRED CAPITAL CONTRIBUTIONS

	2008	2007
Balance, beginning of year	$ 9,256	$ 9,725
Add: Contributions received		
Province of Manitoba		71
Government of Canada	1,834	508
Less: Amount amortized as revenue	(668)	(908)
Balance, end of year	$ 10,422	$ 9,256

Deferred capital contributions represent the unamortized amount of contributions received for the purchase of equipment and improvements of a building. The amortization of contributions is recorded as revenue in the statement of income.

In 2004, the Centre received a loan from the Province of Manitoba for $2,625 bearing interest at 5.63% per annum, with annual payments of $175 plus interest. The loan matures on May 18, 2019. The loan is to be repaid through future appropriations from the Province of Manitoba and therefore has been treated as a grant and included in deferred capital contributions to be consistent with the accounting presentation adopted by the Province of Manitoba.

As the future principal and interest payments will be funded by the Province of Manitoba, the annual principal repayment will be netted against the grant revenue received and the interest payment will be reflected as interest expense.

The deferred capital contributions will be brought into income at the same rate as the corresponding equipment and building improvements are being amortized.

13. DEFICIENCY IN ASSETS

The Special Operating Agencies Financing Authority and the Manitoba Provincial Government entered into a Transfer Agreement respecting the transfer from the Provincial Government to the Financing Authority, of the net assets required for the continuing operations of the Centre. As at April 1, 1996, the date of transfer, the liabilities assumed exceeded the value of the assets by the amount of $35. This amount was recorded as the deficit at April 1, 1996.

14. PENSION BENEFIT

In accordance with the provisions of The Civil Service Superannuation Act, employees of the Centre are eligible for pension benefits under the Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires the Centre to contribute an amount equal to the employee's contribution to the Fund for current services. The amount contributed and expensed by the Centre in the current year was $85 (2007 - $70).

The Centre has no further liability associated with the annual cost of pension benefits earned by the Centre's employees.

15. PUBLIC SECTOR COMPENSATION DISCLOSURE

It is a requirement of the Public Sector Compensation Disclosure Act that annual public disclosure be made of individual compensation exceeding $50 annually to any officer or employee of the Province of Manitoba. The following employees received compensation in excess of $50:

Ufioh, Alphonsus	Process and Product Development Manager	$ 90
Appah, Paulyn	Process Development Consultant	58
Lalla, Mike	Manager, Support Services	84
Qi, Jiacheng	Process Development Engineer	52
Gherasim, Gord	Supervisor, Pilot Plant	53
Nivet, Meeling	Product Development Group Leader	68
Schultz, Nona	HACCP/Regulatory Affairs Coordinator	58
Henuset, Alana	Information Officer	53
Wang, Haihong	Product Development Consultant	54
Planinich, Javier	Manager, Pilot Plant and Commercial Activities	77

16. RELATED PARTY TRANSACTIONS

The following is a summary of the Centre's related party transactions:

	2008	2007
Province of Manitoba		
(Special Operating Agency of the Province of Manitoba)		
Receivable from the Province of Manitoba	$ -	$ 269
Grants received	2,234	2,311
Capital contribution received	-	71
Property taxes paid	149	147
Occupancy costs paid	656	556

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

17. COMMITMENT

The Centre is obligated to make payments to the Workers Compensation Board for an employee currently on disability. The total financial impact on the Centre is not determinable since the length of time the payments will be required is unknown.

The Centre has committed to purchase pieces of equipment for a total of $212.

18. PRIOR PERIOD ADJUSTMENT

During the year, it was discovered that, as a result of an error, a portion of the receivable for Great Plains Aseptic Processors Ltd (GPAP) was not written off. The receivable for GPAP was written off in the prior year. This amount was missed and should have been written off during the last fiscal year. This resulted in a decrease of receivables and retained earnings of $72.

19. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

FOOD DEVELOPMENT CENTRE

Administrative expenses

(Schedule 1)

Year Ended March 31, 2008

	2008	2007 (Restated)
Accreditation and licensing fees	$ 10	$ 6
Amortization	690	641
Bad debts	-	139
Computer expenses	86	64
Equipment rentals	120	66
Insurance	80	52
Interest on long term debt	111	122
Memberships	6	6
Occupancy expenses	656	556
Professional fees	55	51
Property taxes	149	147
Repairs and maintenance	58	65
Research and development	8	1
Staff relocation	8	14
Training	22	10
Expense recoveries	(226)	(369)
	$ 1,811	$ 1,805